Cleaving The Region: Chinese Strategies in Southeast Asia And the U.S. Response

Testimony Before the U.S.-China Economic and Security Review Commission Hearing on "China's Activities in Southeast Asia and the Implications for U.S. Interests"

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Thank you for this invitation to testify before the U.S.-China Economic and Security Review Commission on the subject of China's changing role in Southeast Asia, and its differing approach to the mainland and maritime sub-regions of Southeast Asia. Without doubt, Beijing has advanced and strengthened its relations with Southeast Asia in the past two decades, in both the multilateral and bilateral arenas. The official launch of the China-ASEAN Free Trade Area, which represents the most extensive set of trade and investment agreements between Southeast Asia and an external partner and the largest free trade zone in the world, is emblematic of the economic inroads China has made in the region. It has passed the United States as Southeast Asia's third largest trading partner overall, and is the largest exporter to Southeast Asia. China-Southeast Asian trade accounts for almost half of total intra-Asia trade. If and when the China-ASEAN FTA reaches its potential, these trends can only accelerate and expand China's role as an economic power.

Beijing's economic strategy in Southeast Asia is arguably the easiest part of establishing a new image and presence in the region. Moreover, it helps to fuel China's own economic development, particularly in Yunnan Province. But China has also been methodical in building bilateral relations as well, normalizing diplomatic ties with the governments of Southeast Asia and in many cases beginning to strengthen security relations. Beijing's progress in political and security relations has been less uniform, less quantifiable and less spectacular than its progress in economic relations, but that does not negate the many watersheds that have been achieved by China's so-called "charm offensive."

At this juncture, however, it is worthwhile to look not only at China's relations with Southeast Asia as a region and at its bilateral relations, but also at Beijing's sub-regional strategies. China's growing solidarity with ASEAN notwithstanding, its role in mainland Southeast Asia is increasingly distinct from its relationship to maritime Southeast Asia. This is a primarily a matter of degree rather than dramatic differences in Chinese policy toward the two sub-regions; however, China's greater focus on and penetration of the

mainland has created a *de facto* separation. This growing edge in mainland Southeast Asia has not developed in a vacuum; it was facilitated by the unevenness of U.S. policy toward these two sub-regions for several years and Washington's relative neglect of mainland Southeast Asia.

China's Historic Backyard

Ancient Chinese maps of the Asia region show significant portions of mainland Southeast Asia – Vietnam and portions of northern Burma in particular – as territory of the "Middle Kingdom." This was far from notional in Vietnam, where China dominated for several centuries. In the 19th century colonialism ended even a symbolic role for China as the dominant external power, which only exacerbated the Chinese perception of a "century of shame" at the hands of the Western powers.

In the 20th century, history presented greater complications for China's relations with mainland Southeast Asia than with the maritime region. Although Beijing sponsored communist insurgencies in both sub-regions of Southeast Asia during the Cold War – including Indonesia in 1965 – the primary battleground was on the mainland. Vietnam was China's major ally in Southeast Asia and its proxy in wars against the French and the United States, but Beijing and Hanoi became estranged after Vietnam's reunification and fought a brief border war in 1979. These events paradoxically provided an opening for China to non-communist Southeast Asia. (Burma was the first non-communist Southeast Asian country to recognize the People's Republic of China, in 1949, but the two countries severed relations in 1967 over anti-Chinese riots in Burma.) The fall of Saigon in 1975 and the Vietnamese invasion of Cambodia in 1978 led Thailand to open a window to relations with China, as a hedge against Vietnamese aggression. The Thai-Chinese military relationship began in the late 1970's with cooperation that enabled China to support the Khmer Rouge on the Thai-Cambodian border. Three Southeast Asian countries normalized relations with China in the mid-1970's – Thailand, Malaysia and the Philippines – but Bangkok, which shared concerns with Beijing about both Vietnam and the Soviet Union, established more extensive ties and remains China's closest partner in Southeast Asia.

These historical ties and rivalries persist to some extent, albeit on a much lower scale. As a result, China's relations with mainland Southeast Asia require more daily management than those with the maritime region, particularly with border states. To reduce tensions, China negotiated formal border agreements with the northern tier of mainland countries. Beijing and Hanoi finalized a border agreement in 1990, and China signed an agreement with Laos in 1992. China and Burma negotiated an original border agreement in 1960, but refined that in 2001.

Border tensions remain between the two countries, however, and have become sharper in recent months. When Burmese military forces cracked down on ethnic minorities in the Kokang Special Region of the northern Shan State last August, 30,000 Burmese refugees were pushed into China's Yunnan Province. Beijing warned the junta to resolve the

situation and, in particular, to protect Chinese citizens in Burma. The incident was sobering for Chinese leaders. Although China has become Burma's closest external partner over the past decade, the Burmese regime appears to be focused myopically on maintaining internal control of the country. This dynamic could worsen as the country moves toward elections later this year.

Chinese Objectives in Mainland Southeast Asia

Beyond closing an historic circle, the immediate and future advantages of a focus on mainland Southeast Asia are clear to Chinese policymakers. Many of these relate to the economic development of Yunnan Province through expanded trade and migration. However, a stronger Chinese presence on the mainland also helps protect Beijing's geo-strategic position in the region, as well as China's global energy sourcing. China's pursuit of its objectives in this regard can be seen in:

1. *The development of infrastructure to increase and facilitate trade with the mainland, and to strengthen Chinese security.* Beijing's ambitions in Southeast Asia have literally changed the face of the mainland sub-region. Chinese dams and other developments on the Mekong River provide electricity for Yunnan but they also open new paths for trade. A good deal of this development takes place upriver in China rather than in the sub-region. However, China's ability to make these infrastructure changes has depended in part on the acquiescence of the downriver countries, which are now feeling their impact through environmental disruption. New Chinese-backed roads in Laos will give China greater land access to the mainland. Beyond developments that directly benefit China's economic position, Beijing has also emerged as a sponsor of infrastructure projects on the mainland that could have long-term environmental consequences. In the mid-2000's, for example, China offered to replace World Bank financial guarantees for Laos to build the Nam Theung II dam when the Bank balked over environmental standards.

This changing infrastructure supports China's long term energy security as well as its more immediate trade interests. Proposed pipeline projects with Burma along the Irawaddy River trade route would link Yunnan to the Bay of Bengal and could give China an alternative to transporting oil from the Middle East, lessening Chinese dependence on the Straits of Malacca. These projects alarm India, which has launched its own program of infrastructure development with Burma.

2. The increased Chinese presence (and implied control) in the South China Sea. China's stronger bilateral relations with such countries as the Philippines and its vigorous ASEAN policy have enabled Beijing to reduce tensions over the Spratly Islands in the South China Sea and to sign a Declaration on Conduct of Parties in the South China Sea in 2002. Among other advantages, this broader regional strategy to make Chinese presence in the South China Sea more acceptable constrains China's southern neighbor, Vietnam, in protecting its maritime interests. In addition to disputes over Spratly claims, Hanoi also contests China's continued occupation of the Paracel Islands. Beyond these

disputes, China has recently been more bellicose toward Vietnamese cooperation with other external partners (particularly the United States) in joint exploration of offshore oil and gas, and Beijing has recently announced that it intends to develop the Paracels as a tourist destination. Much of this thrust is aimed at the United States, but at present Hanoi feels the impact more. Paradoxically, China could not have risked raising tensions with Vietnam in this manner if it had not strengthened its relations, not only with Hanoi but with Southeast Asia as a whole.

3. *The exploitation of China's natural trade advantage*. Mainland Southeast Asia provides Yunnan with natural resources, ranging from natural gas to timber, with the lowest transactional costs. Geographical proximity also enables China to market its light manufactures and other goods to the mainland with the greatest ease and the lowest cost. This felicitous set of circumstances is not necessarily in the mainland's long term economic interests, as it all but guarantees a trade deficit with China, but it has been an economic glide path for China. In a different dimension, brother owners in northern Thailand have reconfigured their businesses to accommodate Chinese customers, and the trafficking of women along the China-mainland Southeast Asia border has increased.

4. *The use of mainland Southeast Asia as a population pressure valve.* The last decade saw surges of illegal migration from China into the upper tier of mainland Southeast Asian countries. More recently, China has attempted to regulate this, but not necessarily to stop migration. Agreements for joint infrastructure projects with mainland Southeast Asian governments often contain provisions for upwards to 30,000 Chinese workers and their families, to be settled on special "plantations."

Chinese Advantages

Beyond the great advantage that geography provides, the pursuit of China's economic and security objectives in mainland Southeast Asia has been made easier by some specific conditions in the sub-region, and by broader power dynamics. These include:

1. *Serious poverty in parts of mainland Southeast Asia.* Burma, Laos and Cambodia rank as some of the poorest countries in the world, and stand out as ASEAN's poorer members. Although Vietnam has made impressive strides in poverty reduction in the past two decades, it is also poorer than most of the older ASEAN members, although it is quickly climbing up the ASEAN ladder.

For example, the collective per capita share of GDP in <u>all</u> of the mainland Southeast Asia countries does not equal even half of the per capita GDP of Singapore, and only just exceeds that of Malaysia. Compared to the West, the poverty of the poorer mainland countries is even more profound. In the United States, there is one doctor for approximately every 3,000 people; in Laos, the ratio is one to 23,000. China has reached out to these impoverished nations with economic assistance, both bilateral and through "early harvest" funds in the China-ASEAN Free Trade Agreement. Moreover, China can provide affordable consumer goods to poor mainland Southeast Asians who would not otherwise be able to own motorbikes, cell phones or satellite television.

2. Easier cultural relations with mainland Southeast Asia. The 1967 anti-Chinese riots in Burma notwithstanding, over the centuries Chinese immigrants have often assimilated more easily in mainland Southeast Asia than in the maritime sub-region. This is particularly true of Thailand, where the highly assimilated Sino-Thai were instrumental in establishing the bilateral trade relationship. With the exception of Chinese-majority Singapore, ethnic Chinese in maritime Southeast Asia have often experienced more communal violence (in 1965-66 in Indonesia, as well as in 1998; in the 1969 race riots in Malaysia, etc). Although Chinese cultural diplomacy and assistance, particularly language training, is increasingly welcome throughout Southeast Asia in the 21st century, it has made more inroads in the mainland.

3. *An often distracted United States.* Just as China has, over the past decade the United States has forged a *de facto* separation in its relations with mainland and maritime Southeast Asia. Not coincidentally, these policies are mirror opposites, with a greater focus in Washington on maritime Southeast Asia during the Bush administration. Several factors have contributed to this dynamic:

- The post-September 11 global war against terrorism, and the perception of Southeast Asia as a "second front." This naturally drew attention to the Muslim-majority states of Indonesia and Malaysia, as well as to the southern Philippines. Counter-terrorism provided the entry point for a renewed US military relationship with Indonesia and helped the United States and Malaysia set aside the rhetorical tensions of the 1990's. It affirmed Singapore's importance in the region and re-energized the US-Philippine alliance. These gains have had the effect of limiting China's strategic reach into maritime Southeast Asia, although Beijing has made some inroads in security relations with these countries nevertheless.

- A stronger focus on maritime security, specifically in the Straits of Malacca. Since the unfortunate US overture in 2004 through the Regional Maritime Security Initiative, the United States has quietly been able to strengthen cooperation in Southeast Asian maritime security. This has been a priority area for China as well, since 80% of Chinese oil imports pass through the Straits, but US assistance has overshadowed that offered by China to date.

- Cold War ideological baggage with the countries of the former Indochina. The United States did not normalize relations with Cambodia and Vietnam until 1993 and 1995, respectively, and waited until the 1990's to upgrade relations with Laos. Although ties with these three countries have expanded in recent years – the United States is now Vietnam's and Cambodia's leading trade partner - advances in relations still meet with some opposition in the domestic US political environment.

- US human rights and democracy promotion policies in Southeast Asia. Although the "Asian Values Debate" of the 1990's has faded from government statements and media reports, it has become an operating principle in Chinese policy in Southeast

Asia. In contrast to the more confrontational policies of the United States and the West, China offers the "Beijing Consensus," economic assistance and trade preferences for Southeast Asia without conditions. This marks China's transformation from a revolutionary power as it was in the Cold War, when it sponsored communist insurgencies, to a status quo power, marked by Beijing's indifference to a Southeast Asian partner's form of government. (Ironically, with the Bush administration emphasis on "regime change'" the United States is viewed in some quarters of the region as a revolutionary power.) This policy has particular appeal in mainland Southeast Asia, which is host to several authoritarian regimes and which, whether deservedly or not, often receives greater US criticism on human rights, democracy issues and religious freedom.

Beijing is adept at exploiting the differences between US and Chinese policy in this regard. The genesis of the current Sino-Burmese relationship is in the 1988 crackdown against Burmese pro-democracy activists and the Western policy of sanctions and isolation. Beijing has expanded that opening ever since. In Cambodia, when the West criticized Prime Minister Hun Sen for his part in the 1997 rupture of the government coalition, it put Beijing's relations with the Prime Minister on a new, more positive footing. Even the US reaction to the coup in Thailand in 2006 sparked modest gains for Beijing in Sino-Thai relations.

A Turning Point for US Policy?

It would be an exaggeration to describe the countries of mainland Southeast Asia as "satellites" of China, but it is increasingly possible to discern an emerging Chinese sphere of influence in the sub-region. This is focused primarily on the lower income countries of the mainland – Burma, Laos and Cambodia – but it also affects Thailand and Vietnam, albeit to a lesser extent. China's expanding reach in the sub-region has implications for power dynamics in the South China Sea and in the Bay of Bengal which directly or indirectly affect US security interests in the region.

Most likely, the "Beijing Consensus" and US policy on human rights and political development will continue to be at odds in the sub-region for some time, although both sides have shown signs of softening their positions in the past year. The Obama administration's policy of expanding engagement where appropriate, particularly toward Burma, may give the United States an opening with Vietnam, Laos, Cambodia and Burma that it did not have with more isolationist policies. Ironically, after the Kokang incident in Burma last summer, and with the prospect of its repetition along the China-Burma border, Beijing appears to view the Burmese regime as an exception to the "Consensus" principle. With its oil and gas investments and its desire for an outpost on the Bay of Bengal, what China most wants from Burma in this regard is political stability. At this juncture, Beijing shows signs of reconsidering whether the political status quo in Burma can offer that. It is unlikely that China will move to a more strident insistent on a political democracy in Burma, but neither is it likely to continue to provide automatic support for the present regime.

At this point, it is also possible to observe some negative reactions in mainland Southeast Asia to Chinese policy. A Chinese agreement with the Laotian government to place a Chinese industrial settlement outside Vientiane, near the largest Buddhist temple in the country, met with public resistance. Cambodians have voiced opposition to the National Assembly's guarantee of profits for Chinese developers in the Kamchay Power Plan project. The Vietnamese government had to face stiff public opposition last year over Chinese investment in Vietnamese bauxite mines. More indirectly, but significantly, Thai environmental activists have sharply criticized China for its changes on the Mekong that have negative consequences for Cambodian and Vietnamese living in the affected downriver areas.

It is important to look at the dynamics in each of these cases. They involve popular protests against Chinese actions in mainland Southeast Asia and hint at a diminution Chinese "soft power" in the sub-region. However, they also pit citizens in these countries against their governments and carry a risk of instability if these issues are not adequately resolved. It should not be assumed in every case that popular expressions of discontent would have a positive outcome; they may also be met with government repression. In some cases, a thoughtful expansion of US involvement in Southeast Asia could offer alternatives to mitigate some of these tensions. However, there is no simple zero-sum equation for soft power in this case. Criticism of China will not automatically boost the US "soft power" quotient if the United States does not take pro-active measures to strengthen its ties in the sub-region.

Expanding the Policy Menu

Recent US initiatives in this regard, some of which affect US relations with the entire Southeast Asia region, have been encouraging, although they are only preliminary steps. These include:

- Signing the ASEAN Treaty of Amity and Cooperation (TAC) last year, which provides legal formality to the US-ASEAN relationship;

- The first-ever US-ASEAN Leaders Meeting in Singapore in November;

- The administration's announcement last October that it would take steps to engage the Burmese regime at high levels, adding a new instrument to a policy that had been overwhelmingly dominated by sanctions;

- The Lower Mekong Initiative, which will work with Thailand, Laos, Cambodia and Vietnam on environmental, educational and health issues;

- A new phase in the US-Laos trade relationship, which will provide funds to help Laos make the reforms required to join the World Trade Organization; implement the US-Laos Bilateral Trade Agreement; and help boost Laotian economic development and poverty reduction. This could become an exemplary effort

because it aims to make existing commitments work and focuses on Lao capacity-building, both measures that will build trust in the US-Lao relationship.

Strengthening US relations in mainland Southeast Asia does not require a grand strategy but more the daily attention to relations and the search for appropriate next steps. Nor does it necessarily require a neglect in turn of US relations with the maritime sub-region: the United States can and should build upon the cooperation it forged with these states in the past decade. To strengthen mainland relations, however, the United States should consider the following measures:

1. *Commit to an annual US-ASEAN Summit, and use it as a vehicle to bring the President of the United States to Southeast Asia once a year.* Vietnam has invited President Obama to visit Hanoi for next year's summit, and this option should be favored above others (e.g., a meeting on the margins of the UN General Assembly meeting in New York; a summit following the APEC meeting in Japan).

2. Reassure Southeast Asians that the United States will not decrease its presence in the South China Sea. Washington does not take a position on rival claims such as those surrounding the Spratly Islands, but the Seventh Fleet plays an important role in stabilizing power relations in the South China Sea. Southeast Asians fear being caught between the United States and China in conflict in the Asia-Pacific region, but they also fear that US-China comity could lead to Washington's ceding control of the South China Sea to Beijing and point to what they perceive to be a lackluster US response to recent Chinese saber-rattling with Southeast Asian states. While this may strike US policymakers as far-fetched, Washington should give affected Southeast Asian countries more explicit reassurance with public criticism of Chinese infractions.

3. Press Beijing to become part of the Mekong River Commission, which would help legitimate discussion and action to remediate the environmental, human health and employment impacts of developments on the Mekong. Neither China nor Burma, the two Upper Basin Mekong countries, are members of the MRC. To call upon a well-worn phrase, if they are not part of the solution they will remain part of the problem.

4. *Address the drift in US-Thai relations with a dialogue process to reinvigorate the alliance and lower tensions over specific issues.* Thailand continues to struggle with an ongoing political crisis and fears that the United States does not understand the complicated nature of the problem - many Thais viewed the US reaction to the 2006 as excessively harsh. On a more fundamental level, younger-generation Thais do not grasp a rationale for the alliance relationship, and point to the reluctance of the United States to offer bilateral aid to Thailand in the 1997 financial crisis and the wars in Afghanistan and Iraq, which are remote to many Thais, as examples the dissonance between the two countries. The ongoing nature of security threats in Northeast Asia and post-September 11 cooperation with the Philippines are occasions for the US to review alliances with Japan, South Korea and the Philippines on a regular basis, the alliance with Thailand has been on auto-pilot for several years.

5. *Let the new engagement policy with Burma play out in the fullness of time.* Burma continues to draw policy heat in Washington, which the announcement of elections in October has only intensified. A singular focus on the polls will risk a return to the polarization of the past two decades in US policy toward Burma. At appropriate intervals, the administration should assess the impact, if any, of adding an engagement element to policy, but the criteria for that assessment should not be focused solely on Burma's political development.

6. *Consider the benefits of legislation introduced to extend trade preferences to Asian Least Developed Countries, similar to those given to African and Caribbean countries.* On mainland Southeast Asia, these preferences would benefit Laos and Cambodia and rival trade preferences they receive from China. The impact of this measure on the US global trade position would be minimal but it could have a noticeable impact on these two countries. It could reinforce the cautious new momentum in trade with Laos and help cushion the impact of the economic crisis on Cambodia, which is heavily dependent on trade with the United States.